

## **Chapter 16**

### **Inventory Accounting**

#### **16-1. General**

- a. Inventory consists of tangible personal property:
  - (1) Goods consumed in normal operations;
  - (2) Goods incorporated in the production of goods;or
  - (3) Finished goods; or
  - (4) Goods owned by the U.S. Government which are in the hands of contractors.
- b. Exclude goods (raw materiel, in-process, or completed) issued for use in the construction of equipment. Account for and control these items as construction-in-progress. Also, exclude assets, such as equipment, that are accounted for as fixed assets.
- c. Financial accounting for inventory is required (except during wartime) for all materiel, supplies, and equipment held as bulk stock or in-transit from a supplier.

#### **16-2. Professional requirements**

Accountants must understand:

- a. Inventory requirements and peculiarities of various serviced activities' missions, related bud-get and program guidance, sales and requisition activity trends, and related accounting information requirements and automated interfaces.
- b. Each type of routine sale, purchase, and inventory adjustment and their impact on inventory balances.
- c. The application of generally accepted account-ing principles, standards, analysis and reconcilia-tion requirements. This is necessary for assuring the integrity and accuracy of all reported balances.
- d. The organizational structure and purpose of the U.S. Army's wholesale and retail supply management functions under Defense Business Operations Fund-Supply Management, Army (DBOF-SMA).
- e. Essential internal controls common to management of the DBOF-SMA.

#### **16-3. Responsibilities**

- a. The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) has the responsibility for development of policies and principles related to financial inventory accounting. This includes the responsibility for the review and analysis of the effectiveness of financial inventory operations.
- b. The Office of the Deputy Chief of Staff for Logistics has the responsibility for the manage-ment analysis and performance analysis of the inventory accounting for logistics management purposes. This includes providing supervision, in conjunction with the Defense Finance and Accounting Service-Indianapolis Center, for the general design, format, supply management, and reporting aspects of the

financial inventory accounting systems.

- c. Major command (MACOM) and installation commanders are responsible for the administration and management of financial inventory accounting systems under their command.
  - d. Logisticians control inventory accountability. The finance and accounting officer/defense accounting officer will maintain financial accountability. Various organizations will control the budget formulation process.
  - e. Accountants' responsibilities are to--
    - (1) Monitor and analyze problem areas for management.
    - (2) Reconcile inventory subsidiary records to the standard general ledger (SGL).
    - (3) Ensure adequate documentation is provided upon completion of the inventory reviews. This is required to support adjustments to the standard general ledger accounts.
  - f. The responsibilities for all sub-home offices and branch offices are to--
    - (1) Accomplish all financial and supply manage-ment responsibilities for inventory and related expenses.
    - (2) Perform accounting functions dealing with procurement, receipt, storage, sale, and other authorized disposition of U.S. Army financed materiel.
    - (3) Prepare and submit prescribed reports and analyses.
  - g. The finance and accounting officer/defense accounting officer will maintain financial inventory records for inventories except depot program stocks and clothing sales stores. Accountable property officers will furnish the finance and accounting officer/defense accounting officer a monthly summary of increases and decreases of depot program stock and clothing sales services for standard general ledger control.
- #### **16-4. Financial inventory accounting (FIA)**
- a. Establish and maintain an FIA system for accountable inventory records within the U.S. Army supply system. Use a formal accounting system to integrate the required quantitative stock record accounting and monetary accounting.
  - b. Installations reporting according to AR 710-1 (Centralized Inventory Management of the U.S. Army Supply System) will:
    - (1) Maintain financial inventory records by materiel category.
    - (2) Differentiate between funded and unfunded items within each category.
    - (3) Maintain separate records for serviceable and unserviceable items within each category.
  - c. Installations operating under AR 710-2 (Supply Policy Below the Wholesale Level) will not maintain financial inventory records by materiel category

unless required by local procedures.

d. Perform FIA for materiel accepted from the supplier, and continue FIA until transferred and accepted by the consuming activity.

e. Ensure that the accountable property officer provides copies of all receipts, issues, and adjustment documents used to update stock record accounts. Assure that these transactions are entered into the accounting system.

f. Post transactions to the FIA records for items going directly from or returned to a vendor by the user.

g. Provide accountable property officers the necessary financial inventory data to prepare required monthly reports.

h. Include all Defense Business Operations Fund-Depot Maintenance, Army (DBOF-DMA) materiel and supply inventories in the capital or corpus of the fund.

i. Value inventories as follows:

(1) Use the acquisition cost method for major items and Depot Level Repairables. This method establishes the value of inventory acquired at cost. Value DBOF-SMA inventory by multiplying the current standard price by the quantity for each item.

(2) Use the retail method for all other inventories which recognize certain expected additional costs to determine the ending inventory. Maintain records of the beginning inventory and the purchases during the period at both the actual cost and the retail value. From these records, compute a cost ratio by dividing the cost of merchandise available for sale by the retail value of the merchandise available for sale. Determine the ending inventory at retail value. Include costs such as transportation costs, inventory expenses (shrinkages, theft, damage, obsolescence), inventory maintenance required above normal demand replacement, and inflation or deflation estimates.

j. Account for U.S. Government Furnished Property (GFP) provided to contractors as prescribed in Chapter 18.

k. Record loaned inventory based on documentation (input) from the accountable property officer who maintains suspense files to support the outstanding balance. Charge losses or other reductions of loaned inventory to the borrowing activity upon return of supplies or expiration of loan agreement.

l. Maintain financial control over outstanding materiel returns to inventories. See Chapter 9 for obligation adjustment rules. Account for returns as reversals of related materiel procurement and issue transactions.

m. Maintain financial control over inventory in-transit from the vendor and returned to the vendor.

n. Maintain financial control over inventory in-transit, at the wholesale level, for major items and

reparable items in transit to the user or to retail levels.

o. Maintain subsidiary accounts for repair and utility stock and self-service supply inventories. These financial records are the only accountable records.

#### **16-5. Summary level accounting procedures**

a. Use summary level accounting procedures for low dollar items. Record only net results of all transactions taking place during a posting period, as authorized by AR 710-2.

b. Increase or decrease inventory by the amount of materiel received or issued.

c. Record materiel costs upon replenishment of the supplies, not at the time of issue.

d. Obtain reimbursement for supply support given to an organization using an appropriation different from that of the property office. Record cost adjustments for significant dollar volume or when statutory requirements apply. Otherwise, account for as routine non-reimbursable issues.

e. Base distribution of costs to customer cost accounts on an equitable basis (see Chapter 26).

#### **16-6. Self-service supply centers (SSSC)**

a. Capitalize inventory held in the SSSC into the DBOF-SMA when the DBOF-SMA is extended to the installation level.

b. Ensure that the supporting FAO/DAO reviews all receipt, issue and turn-in documents relating to the SSSC.

#### **16-7. Inventories temporarily in use**

a. Show the following information on source documents evidencing loan of non-consumable supplies:

(1) The code designation of the maneuver or mission that clearly indicates the transaction as a temporary loan.

(2) A predetermined date for return.

(3) The complete accounting classification of funds to be charged for the estimated cost for repair or reconditioning.

b. Maintain a file of loaned items to support the standard general ledger.

c. Record losses, consumption or other reduction in value for returned supplies.

d. Charge obligations and costs incurred amounts due to loss, damage, or other reduction in value.

e. Charge the appropriation and program current at the time of return to the benefiting accounting entity (lender).

#### **16-8. DBOF-SMA inventory management**

a. Inventory management involves the inter-activity between consumer funded activities and the DBOF-SMA. The goal is to maintain proper levels of inventory and financing for operating stocks,

authorized reserves, and related supply pipeline quantities. Forecasting and timely processing of sales and purchases information are critical to the solvency of the DBOF-SMA account.

b. The U.S. Congress authorized the Secretary of Defense to establish a revolving fund to finance inventories of stores, supplies and equipment. The DBOF-SMA is such a fund that finances these costs from the time materiel is requisitioned until issued for use or consumption.

(1) Specific objectives of the DBOF-SMA are to:

(a) Provide a decentralized system of sound financial and supply management.

(b) Provide a flexible system responsive to supply requirements.

(c) Provide a uniform and simplified accounting and reporting system.

(2) Each DBOF-SMA division is organized and managed through command channels within the organizational command structure. Normally, the major command is the home office, subordinate commands are sub-home offices, and field installations are branch offices.

(3) The budget process determines the funding levels. HQ DA issues DBOF-SMA Operating Cost Authority and Capital Budget Authority through command channels.

(4) DBOF-SMA accounting and reporting is generally the same as for other appropriations and fund accounts. A satisfactory system of financial and quantity accounting requires:

(a) A summary (or control) account for transactions and stock balances in financial terms by stock classification.

(b) Summarization of DBOF-SMA transactions at least once a month, and recording into the summary accounts.

(c) Using the U.S. Army's SGL.

(d) Detailed stock records or simplified inventory accounting for low valued materiel in support of the financial summary accounts.

(e) Prompt recording of issues, losses or disposal of materiel.

(f) Periodic or continuous, rotating physical checks of stock items and adjustment of stock records and summary accounts.

(5) The DBOF-SMA divisions are structured by MACOM. War reserve and initial issue items, which are part of total package fielding, are purchased from the DBOF-SMA account by the U.S. Army and then issued to requesting activities on a non-reimbursable basis.

(6) Inventory accountability within the DBOF-SMA is either on a line item or monetary basis. Line item accountability provides a dollar value directly attributable to a given National Stock Number (NSN). Monetary accountability gives the total value of the inventory, not its components. Some installations or

activities maintain inventory accounts on a monetary basis because of manual quantitative stock record accounts (SRAs).

(7) At most installations, the DBOF-SMA has many inventories, with each inventory having some unique quality. Managers must learn to differentiate between these various inventories and their associated processes. Maintain inventories as follows:

(a) Installation supply divisions use line item accounting records. These accounts include inventory available for issue, war reserves, project stocks, and other supplies pending disposition instructions (condition codes A, B, C, D).

(b) SSSC maintains inventories on a monetary basis. Some activities purchase SSSC inventory with Operation and Maintenance, Army (OMA) funds. When issues are made to requiring activities, credit the SSSC carrier account.

(c) The Director of Engineering and Housing maintains inventories on a monetary basis. Some activities do not maintain the items in DBOF-SMA. When these items are purchased with OMA base operations funds and when special projects are initiated, transfer the inventory values to the special project and base operations credited.

(d) Some medical/dental activities maintain inventory on a line item basis. The chief of the medical/dental activity is the manager of all medical/dental inventory on the installation. This activity issues medical materiel required by tactical units, rather than the Direct Support Unit (DSU). When issued to a tactical unit, medical materials are dropped from accountability and charged to the AMSCO of the requesting activity.

(e) Troop Issue Subsistence Activity (TISA) will maintain inventories on a monetary basis. For activities having more than one TISA, the inventory is segregated by assigning separate standard general ledger subsidiary accounts.

(f) Clothing Initial Issue Points will maintain inventory at installation reception centers on a monetary basis.

(g) U.S. Government inventories maintained by contractors may be automated (line item accountability) by the contractor, but will also be recorded in the DBOF standard general ledger accounts.

(h) Paragraphs (a) through (g) above represent different DBOF-SMA inventories at various activities, but are not all inclusive. Other activities may have unique requirements for DBOF-SMA inventory and may assign a subsidiary standard general ledger account on an "ad hoc" basis in order to maintain identity of unique inventory.

c. Inventories funded by other appropriations primarily involve supply and equipment items funded by the procurement or OMA appropriations.

(1) Primary items are funded by procurement

appropriations and consist of major end items. (For example, trucks and tanks). Primary items are dropped from inventory when issued to the requiring activity. The DBOF-SMA appropriation is the funding appropriation for reparable items which are commonly referred to as repair parts.

(2) The wholesale activity may sometimes fund inventory with OMA funds and issue items on a non-reimbursable basis to installations. Process this inventory as "free issue" to the receiving activity. This is different from items purchased with OMA funds allotted to the installation. Normally, use branch office DBOF-SMA monies to purchase locally procured inventory items. Reimburse the DBOF-SMA with the OMA funds of the requiring activity for issues made from inventory.